

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

SCOTT COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2003

	<u>CFDA Number</u>	<u>Pass Through Number</u>	<u>Dis- bursements</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed through Kentucky Department of Education			
Title I	84.010	0531-02	\$ 91,765
Title I	84.010	0532-03	770,397
Title I - Regional Migrant Grant	84.011	0531-02	14,888
Title I - Regional Migrant Grant	84.011	0531-03	48,277
Coordinated School Health	93.938	0731-02	180
Coordinated School Health	93.938	0731-03	1,560
Title VI	84.298	0533-02	11,136
Vocational Education Grants	84.048	5462-02	1,546
Vocational Education Grants	84.048	5462-03	51,062
IDEA B Basic -MOA	84.027	0581-02	75,969
IDEA B Basic	84.027	0581-02	91,333
IDEA B Basic	84.027	0581-03	673,899
IDEA B Preschool	84.173	0587-03	50,679
EESA Title II	84.281A	0531-02	15,907
Drugs & Alcohol	84.186	0590-01	6,960
Drugs & Alcohol	84.186	0590-02	38,439
Drugs & Alcohol	84.186	0590-03	29,660
Goals 2000 - School Reform	84.276	0733-01	35,610
Kentucky Audit Review Scorer	84.281C	03	3,587
Class Size Reduction Act	84.340	534-02-01Z	32,540
Teacher Quality - Title II-A	84.367A	03	250,306
Education Technology Grant - Title II-D	84.318X	03	15,598
Innovative Strategies - Title V	84.298	03	30,361
Passed through the Ohio Valley Educational Cooperative			
School Health Improvement Grant	93.945	93.945-03	2,057
Passed through the Housing Authority of Georgetown			
Adult Education - Impact	84.002	0535-02	9,116
Adult Education - Impact	84.002	0535-03	56,163
Passed through the Kentucky Workforce Development Cabinet			
Adult Education	84.002	0535-03	50,342
Adult Education - Staff Development	84.002	0535-03	4,019
Adult Education - Development Funds	84.002	0535-03	<u>20,102</u>
Total U.S. Department of Education			\$ <u>2,483,458</u>
<u>NATIONAL SCIENCE FOUNDATION</u>			
Technology Literacy Challenge	84.318	0736-01	\$ <u>21,201</u>
Total National Science Foundation			\$ <u>21,201</u>

SCOTT COUNTY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year ended June 30, 2003

	<u>CFDA Number</u>	<u>Pass Through Number</u>	<u>Dis- bursements</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed through the Kentucky Workforce Development Cabinet			
National Community Service Grant	94.004	0743-02	\$ 1,058
National Community Service Grant	94.004	0743-03	<u>6,359</u>
Total U.S. Department of Health and Human Services			\$ <u>7,417</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed through the Kentucky Department of Education			
National School Lunch	10.555	0575-00	\$ 602,321
National School Breakfast	10.553	0575-00	92,992
Summer Meal Reimbursement	10.559	0575-00	36,656
Passed through the Kentucky Department of Agriculture			
Food Distribution	10.555	N/A	<u>128,428*</u>
Total U.S. Department of Agriculture			\$ <u>860,397</u>
<u>DIRECTLY FROM FEDERAL GOVERNMENT</u>			
AFJROTC	12.000	N/A	\$ <u>44,942</u>
Total Direct from Federal Government			\$ <u>44,942</u>
Total of All Federal Programs			\$ <u>3,417,415</u>

*Non-monetary assistance is reported in the schedule at the fair market value of the commodities received.

SCOTT COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year ended June 30, 2003

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Scott County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. The District no longer maintains a separate commodities inventory due to changes in program regulations.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SCOTT COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year ended June 30, 2003

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued (unqualified):

Internal control over financial reporting:

- Material weakness(es) identified? _____yes X no
- Reportable condition(s) identified
that are not considered to be material
weaknesses? _____yes X none reported

Noncompliance material to financial
statements noted? _____yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____yes X no
- Reportable condition(s) identified
that are not considered to be material
weakness(es)? _____yes X none reported

Type of auditor's report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are
required to be reported in accordance
with section 510(a) of Circular A-133? _____yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.027, 84.173	Special Education Cluster
10.553, 10.555, 10.559	Nutrition Cluster

Dollar threshold used to distinguish
Between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____yes X no

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

SCOTT COUNTY SCHOOL DISTRICT

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2003

There were no prior year audit findings.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Scott County School District
Georgetown, Kentucky

We have audited the financial statements of Scott County School District as of and for the year ended June 30, 2003 and have issued our report thereon dated December 22, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and state audit requirements.

Compliance

As part of obtaining reasonable assurance about whether Scott County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards or state audit requirements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Scott County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Scott County School District in a separate letter dated December 22, 2003.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Scott County School District, the Kentucky Department of Education management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Casper, Mountjoy & Bessley, P.C.

Lexington, Kentucky
December 22, 2003

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Scott County School District
Georgetown, Kentucky

Compliance

We have audited the compliance of Scott County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Scott County School District's major federal programs are identified in the accompanying schedule of expenditures of federal awards. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Scott County School District's management. Our responsibility is to express an opinion on Scott County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and state audit requirements. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Scott County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Scott County School District's compliance with those requirements.

In our opinion, Scott County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Scott County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Scott County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contract and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II of the Independent Auditor's Contract - State Audit Requirements.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Scott County School District, the Kentucky Department of Education management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Carpenter, Mountjoy & Brunsley, P.S.C.

Lexington, Kentucky
December 22, 2003

MANAGEMENT LETTER COMMENTS

Members of the Board of Education of
Scott County School District
Lexington, Kentucky

In planning and performing our audit of the financial statements of Scott County School District for the year ended June 30, 2003, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated December 22, 2003 contains our report on the District's internal control structure. This letter does not affect our report dated December 22, 2003 on the financial statements of the Scott County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

Carpenter, Mountjoy, & Bressler, PSC

A handwritten signature in black ink that reads "Carpenter, Mountjoy & Bressler, P.S.C." in a cursive, flowing script.

Lexington, Kentucky
December 22, 2003

SCOTT COUNTY SCHOOL DISTRICT

MANAGEMENT LETTER COMMENTS

June 30, 2003

SCOTT COUNTY SCHOOL DISTRICT

Current Year Comments

Payroll

It was noted during the course of the audit that there is limited segregation of duties between the functions of human resources and payroll. Currently, payroll employees may enter or alter employee information in the system. As proper duty segregation and authorization for the entry or alteration of any vital personnel information is crucial in the prevention of the misappropriation of payroll funds, it is recommended that the District restrict access to personnel records to those not involved in the payroll process.

During payroll testing, it was noted that no personnel file documentation of previous work history was required for those employees receiving credit for previous work experience outside the district. In addition, no calculation of such work experience was evident. Although the District currently has no written policy regarding the inclusion of this information, it is recommended that such a policy be implemented and enforced.

When examining personnel files during payroll testing, one was noted to be missing the required Form I-9. It is recommended that every effort be exerted to ensure that all required information be maintained in each personnel file.

Management's Response

1) Scott County School District currently utilizes a "payroll authorization" that is signed by the Director of Human Resources, Superintendent, and Director of Business and Finance before any action relating to payroll is taken. This authorization form includes: position code, date, employee name, class code, position, general ledger account numbers, year experience, work location, hourly rate, hours scheduled per day, who the person is replacing, number of days in contract, rank, starting date, and other comments. Access to personnel files is limited to the Director of Human Resources, Director of Business and Finance, Chief Accountant, and Payroll Personnel. Vital personnel information is only "shared" on a "need to know" basis. Payroll data files may only be changed by the Chief Accountant and Payroll Staff. Changes to experience, pay rates, contract terms, rank, hours employed, and days employed are documented with a properly approved payroll authorization.

2) Previous work history is verified on all new employees of Scott County School District. Experience for certified staff is applied as required by applicable Kentucky Department of Education Regulations and Procedures. Experience for newly employed classified staff is determined based on experience that is directly related and verifiable to the responsibilities for which the individual is being hired. This process will be incorporated as an administrative procedure.

3) In March 2000, the Scott County School District implemented a process to ensure all required documents are obtained and filed on employees. The missing I-9 document was for an individual employed in August 1987. The requirement to complete the I-9 became effective November 6, 1986. This district will audit all active personnel files for completeness of documents.

SCOTT COUNTY HIGH SCHOOL ACTIVITY FUNDS

MANAGEMENT LETTER COMMENTS

June 30, 2003

Dual Signatures

During our audit, we noted two instances where there were not two signatures on the check. According to the "Accounting Procedures for Kentucky School Activity Funds, all checks should be signed by both the principal and the bookkeeper.

Management's Response

All checks from the Scott County High School Activity Accounts will be double checked to ensure there is a signature by both the school principal and bookkeeper in accordance to accepted Uniform Program of Accounting for School Activity Funds practices.

Fund Balances

One High School Activity fund was noted as having a negative balance as of June 30, 2003. All activity funds should be managed and maintained in such a manner as to prevent balance falling below zero.

Management's Response

We will monitor individual club and activity accounts to ensure that there will be no deficit balances at the end of the fiscal year in accordance to accepted Uniform Program of Accounting for School Activity Funds practices.

SCOTT COUNTY SCHOOL DISTRICT

GEORGETOWN MIDDLE SCHOOL ACTIVITY FUNDS

MANAGEMENT LETTER COMMENTS

June 30, 2003

Dual Signatures

During our audit, we noted two instances where there were not two signatures on the check. According to the "Accounting Procedures for Kentucky School Activity Funds", all checks should be signed by both the principal and the bookkeeper.

Management's Response

All checks from the Georgetown Middle School Activity Accounts will be double checked to ensure there is a signature by both the school principal and bookkeeper in accordance to accepted Uniform Program of Accounting for School Activity Funds practices.

Separation of Duties

During our exit interview with the principal and bookkeeper, it was noted that the bookkeeper opens bank statements and reconciles the account before the principal checks the bank statement for accuracy. The principal should open all bank statements and check for errors or items that are inconsistent with the school's records before the bookkeeper reconciles the account.

Management's Response

The principal will open, check for accuracy and sign all bank statements coming to the school. The principal will then forward the statement to the school bookkeeper for reconciling.

SCOTT COUNTY SCHOOL DISTRICT

SCOTT COUNTY MIDDLE SCHOOL ACTIVITY FUNDS

MANAGEMENT LETTER COMMENTS

June 30, 2003

Authorizing and Processing of Purchases

All purchase orders must be signed by the bookkeeper and the principal. Two purchase orders out of fifteen sampled were not signed by the principal or the bookkeeper. We recommend that the principal review and sign all purchase orders. All purchases must be properly authorized in order to comply with District policy.

Management's Response

Purchase requests will be approved by the sponsor and principal, as indicated by signatures, before payment is obligated.

Eliminate Incurring Sales Tax

During our audit, we noted one instance when the school paid sales tax. The "Accounting Procedures for Kentucky School Activity Funds" states that schools are exempt from paying sales tax and employees purchasing items on behalf of the schools cannot be reimbursed for sales tax.

Management's Response

Scott County Middle School will not pay sales tax to vendors when purchasing items on behalf of the school. Schools are exempt from sales tax.

Dual Signatures

During our audit, we noted two instances where there were not two signatures on the check. According to the "Accounting Procedures for Kentucky School Activity Funds", all checks should be signed by both the principal and the bookkeeper.

Management's Response

All checks from the Scott County Middle School Activity Accounts will be double checked to ensure there is a signature by both the school principal and bookkeeper in accordance to accepted Uniform Program of Accounting for School Activity Funds practices.

Sequential Use of Receipts

During our audit, we noted one instance where receipts were not used sequentially. Receipts that are voided should be retained with the school's records and the receipt should be listed on the receipt register as a voided receipt.

Management's Response

Pre-numbered receipts will be issued. Voided receipts will be retained with the school's records and the receipts will be listed in the receipt register as a voided receipt.

SCOTT COUNTY SCHOOL DISTRICT

EASTERN ELEMENTARY SCHOOL ACTIVITY FUNDS

MANAGEMENT LETTER COMMENTS

June 30, 2003

None

SCOTT COUNTY SCHOOL DISTRICT

GARTH ELEMENTARY SCHOOL ACTIVITY FUNDS

MANAGEMENT LETTER COMMENTS

June 30, 2003

Bank Reconciliation Error

During our audit, we noted that the year-end bank reconciliation did not reconcile the school's books to the bank statement balance. We recommend that the bookkeeper and principal both review reconciliations for accuracy, before signing monthly reports.

Management's Response

Before signing the monthly reports, the principal will review the amounts for accuracy.

SCOTT COUNTY SCHOOL DISTRICT

NORTHERN ELEMENTARY SCHOOL ACTIVITY FUNDS

MANAGEMENT LETTER COMMENTS

June 30, 2003

Dual Signatures

During our audit, we noted two instances where there were not two signatures on the check. According to the "Accounting Procedures for Kentucky School Activity Funds", all checks should be signed by both the principal and the bookkeeper.

Management's Response

All checks from the Northern Elementary School Activity Accounts will be double checked to ensure there is a signature by both the school principal and bookkeeper in accordance to accepted Uniform Program of Accounting for School Activity Funds practices.

Missing Invoice

During our audit, we noted an instance where a disbursement was not supported by a vendor's invoice or a standard invoice. According to the "Accounting Procedures for Kentucky School Activity Funds", a standard invoice should be prepared for all disbursements not supported by a vendor's invoice.

Management's Response

We will require that all requests for disbursements are supported by at least a properly approved standard invoice.

SCOTT COUNTY SCHOOL DISTRICT

SOUTHERN ELEMENTARY SCHOOL ACTIVITY FUNDS

MANAGEMENT LETTER COMMENTS

June 30, 2003

Monthly Reports and Reconciliations

We noted that two months of bank reconciliations and month-end reports were not timely prepared and submitted. This allows for errors to remain undetected and does not provide proper controls over the activity fund finances. The bookkeeper should be responsible for timely preparation of the monthly reports and the principal should review and ensure that timely submissions are made to central office.

Management's Response

The bookkeeper will begin reconciling the bank statements and preparing the month-end reports promptly upon receiving the initialed bank statements from the principal to allow adequate preparation time. The principal will make note in his calendar (15th of each month) to check with the bookkeeper the status of each month-end report to ensure timely preparation. The bookkeeper will make note of any abnormalities that may cause the month-end report from being completed in a timely manner, such as computer/printing problems, not receiving bank statement timely, etc.

SCOTT COUNTY SCHOOL DISTRICT

STAMPING GROUND ELEMENTARY SCHOOL ACTIVITY FUNDS

MANAGEMENT LETTER COMMENTS

June 30, 2003

Separation of Duties

During our exit interview with the principal and bookkeeper, it was noted that the bookkeeper opens bank statements and reconciles the account before the principal checks the bank statement for accuracy. The principal should open all bank statements and check for errors or items that are inconsistent with the school's records before the bookkeeper reconciles the account.

Management's Response

The following steps will be taken by the principal to improve the preparation of the bank statement each month:

- 1) Principal will open bank statement each month and will check for the following items:
 - a. Two signatures on each check
 - b. Abnormal transaction amounts
 - c. Compare receipts to deposit slips against the deposit on the bank statement
 - d. Check for any other errors or items that are inconsistent with the school's records

After these procedures are taken by the principal, the bank statement will be reconciled by the bookkeeper in accordance with the Uniform Program of Accounting for School Activity Funds.

SCOTT COUNTY SCHOOL DISTRICT

WESTERN ELEMENTARY SCHOOL ACTIVITY FUNDS

MANAGEMENT LETTER COMMENTS

June 30, 2003

Separation of Duties

During our exit interview with the principal and bookkeeper, it was noted that the bookkeeper opens bank statements and reconciles the account before the principal checks the bank statement for accuracy. The principal should open all bank statements and check for errors or items that are inconsistent with the school's records before the bookkeeper reconciles the account.

Management's Response

A process has been implemented to ensure the principal opens the bank statement and checks for error before handing it over to the bookkeeper for reconciliation.

Outstanding Checks

During our audit, we noted two checks that have been outstanding longer than one year. According to the "Accounting Procedures for Kentucky School Activity Funds", all outstanding checks older than one year should be properly written off and removed from the school's records.

Management's Response

All outstanding checks older than one year will be written off and removed from the school's records.

SCOTT COUNTY SCHOOL DISTRICT

NINTH GRADE SCHOOL ACTIVITY FUNDS

MANAGEMENT LETTER COMMENTS

June 30, 2003

Separation of Duties

During our exit interview with the principal and bookkeeper, it was noted that the bookkeeper opens bank statements and reconciles the account before the principal checks the bank statement for accuracy. The principal should open all bank statements and check for errors or items that are inconsistent with the school's records before the bookkeeper reconciles the account.

Management's Response

The Ninth Grade School principal will open all bank statements from this date forward. The principal will check for any irregularities, initial the statement, and forward it to the school treasurer for reconciliation.